

# REVOLUTIONISING M&A

## APPLYING GEN AI TO INVESTMENT DUE DILIGENCE

**GoingVC Investment Thesis**

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# EXECUTIVE SUMMARY



## Landscape

Legal and financial due diligence is integral to M&A. It helps investors understand the nature of a deal, the risks involved and portfolio fit. But it is an increasingly manual and demanding process. In a decade, the average due diligence period has risen from 124 to 203 days.



## Problem

Due diligence suffers pain points, including time pressures and accuracy requirements. Poor execution can delay or end a deal and, on average, diligence that is too short or too long incurs at least 7% greater a premium on the purchase price.



## Solution

Generative AI exhibits strength in data heavy, manual, analytical tasks. 66% of dealmakers recognise its high potential and 80% expect to use within 3 years. But just 16% use it today. There is opportunity for strong startups to provide value and capitalise on a growing industry.



## Thesis

Our conviction is that Gen AI integration into M&A is becoming vital. It can address the challenges and differentiate dealmakers. Startups capturing the technology can meet growing requirements and offer long-term upside to investors.

# DUE DILIGENCE

## What is due diligence

Process to evaluate company suitability for acquisition, at the core of successful M&A

- Examines risks, benefits & valuation across financial, legal, operational & commercial
- Reduces information asymmetry between buyer & seller
- Relies on financial & legal data provided to acquirers in a virtual data room

### Financial due diligence

- Deep dive financial performance, health & risks
- Financial statements, cash flows, revenue streams & historical performance
- Ensure accurate & sustainable statements
- Consider validity of seller assumptions

### Legal due diligence

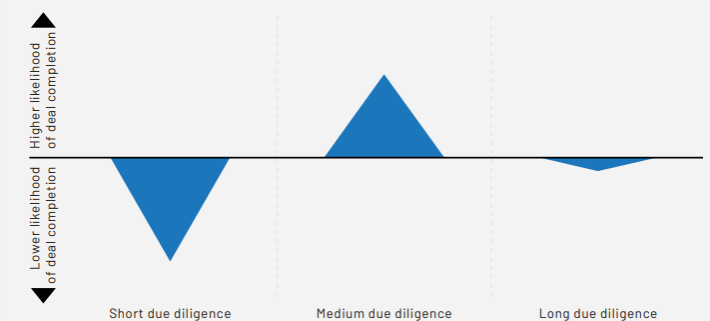
- Deep dive business, legals, financials & operations
- Licenses, employment contracts, regulatory issues, pending liabilities, IP, patents
- Identify risks/liabilities that could impact transaction
- Ensure deals deliver on promised value and benefits

## Why is it important

Helps investors understand nature of deal, risks involved & portfolio fit

- Essential to informed investment decisions
- Strengthens trust & relations of counterparties
- Prioritises value creation
- Guides post-transaction strategy
- Good processes support greater likelihood of successful deal completion

Due diligence time frame and the likelihood of deal completion





# PAIN POINTS: LEGAL

## Incomplete & Inaccurate Data

Undisclosed liabilities may lead to post-acquisition lawsuits if target company misrepresented itself

After HP acquired Autonomy, revenue began to flag

- HP uncovered signs of past creative accounting, forcing a write down of over \$5bn
- Triggered shareholder lawsuits & criminal investigation into Autonomy's founder

## Cultural Differences

Differing values, styles & management may lead to conflicts, integration difficulties & price disagreements

Sprint acquired majority stake in Nextel Communications in a \$37.8bn stock purchase in 2005

- Shortly after, many Nextel executives & managers left, citing incompatible cultural differences
- In 2008, Sprint wrote off \$30bn in one-time charges due to impairment to goodwill

## Regulatory Compliance

Non-compliance can be a showstopper if either party fails to comply with laws & regulations

Verizon's 2017 acquisition of Yahoo had two data breaches

- Yahoo previously suffered a breach in 2013 but only disclosed it in 2016
- Delayed disclosure raised concerns about Yahoo's data security & directly impacted final price

## Confidentiality

Vital during due diligence to protect deal integrity, as leaks can lead to reputational damage, legal repercussions or collapse

Insider trading is a frequent, major risk, with many high-profile cases in 2024:

- A man illegally made \$1.76mm after hearing his wife speak on BP's TravelCenters takeover
- Goldman Sachs analyst found guilty for six offences of trading on inside M&A information

# PAIN POINTS: FINANCIAL

## Incomplete & Inaccurate Data

Missing financial records, undisclosed debts or inaccurate operational metrics may lead to post-acquisition disputes or securities fraud lawsuits

Caterpillar Inc purchased Chinese company ERA Mining for \$677mm in 2012

- By Jan-13, Caterpillar discovered "deliberate, multi-year, coordinated accounting misconduct"
- Wrote down 86% as goodwill impairment

## Unplanned Costs

Unplanned costs or overlooked liabilities can significantly impact deal outcome

Bank of America acquired Countrywide for \$4.1bn in Jan-08, combining the biggest retail bank with the biggest mortgage provider, but the housing market was already collapsing

- Countrywide's books were loaded w/ bad debt, BoA spent \$40bn to settle legal claims against it

## Time Pressures

Tight timelines can lead to rushed decisions, manual methods used by many are inefficient & unsustainable

Between 2022-24, 30% of the 50 largest global acquisitions experienced delays attributable to factors beyond their control, up from 15% in 2020

- Deals stalled 6mos. on average, but the longest delays exceeded 15mos.

## Lack of Expertise

Prospective buyers may need a blueprint, consultation or external assistance to know key questions to ask

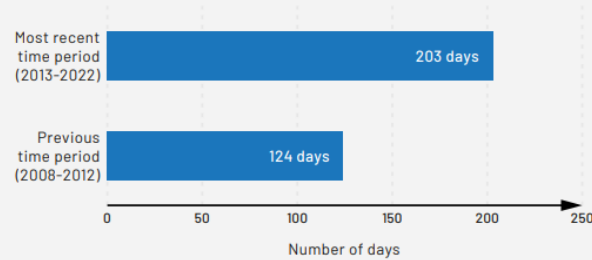
In 1993, Quaker Oats acquired Snapple for \$1.7bn but sold it for \$300mm 4yrs later

- Quaker mismanaged sales pipelines, using supermarkets instead of Snapple's smaller channels
- Launched a disastrous advertising campaign out of tune with Snapple's client base

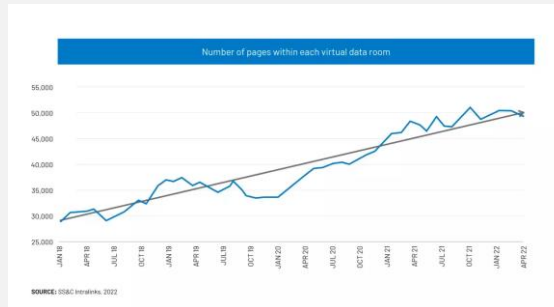
# TRENDS IN DUE DILIGENCE

## Investors spend 64% more time on due diligence than in 2013

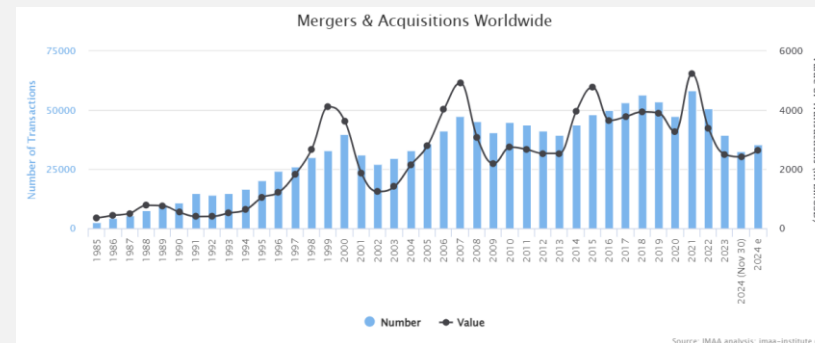
Average due diligence period  
(from VDR opening to public announcement of deal)



## Data in VDRs has increased 69% between 2018-22



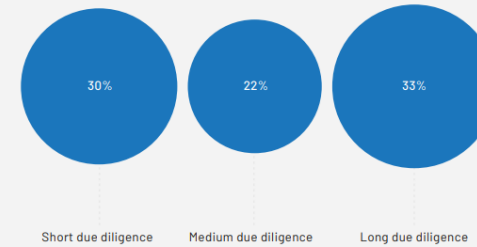
## Number & value of deals globally has trended upwards over 40yrs (dip in COVID)



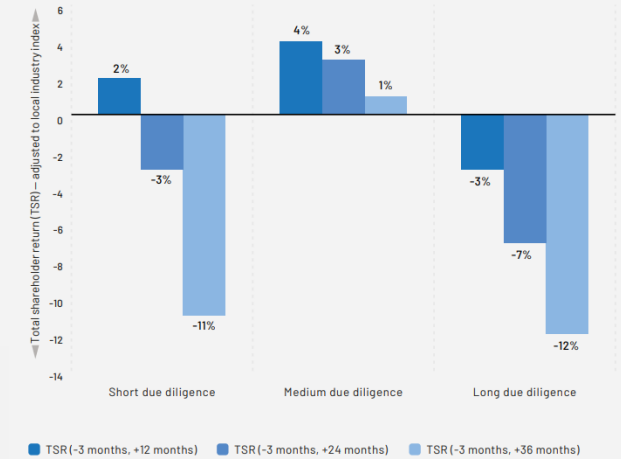
## Medium length processes increase likelihood of completion

- Shorter deal completion times than *short* or *long* due diligence
- Lower premium (22%) than deals w/ short (30%) or long (33%) due diligence
- 4% higher return for shareholders vs. main market in 12mos.

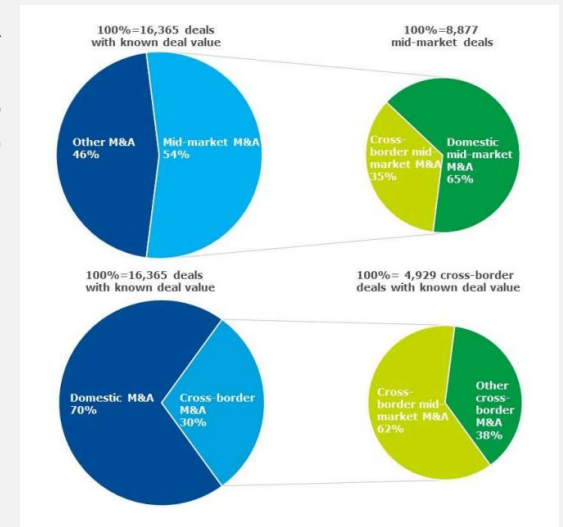
Average price premium relative to undisturbed target share price  
(as of one day before deal announcement)



Average total shareholder return (TSR) by due diligence period



## Cross-border M&A accounts for 35% of all mid-market deals (€10-200mm)



# PROBLEM STATEMENT



**Good due diligence is critical to the likelihood of successful deal completion**

**But several pain points affect legal and financial analysis, and can be terminal for a deal**

**Increasingly large datasets, complex cross-border transactions and macroeconomic risk factors demand more of analysts to complete high quality due diligence**

**Solutions must support analysis, to increase accuracy, efficiency and depth of insights across multiple languages and data formats**



## Generative AI

Subset of artificial intelligence that uses machine learning to create new content

- Analyses structured & unstructured data to create text, images, videos & more
- Thrives with targeted uses rich in data, repetition or creative idea generation
- Positioned as an excellent tool for automating elements of due diligence

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### Strengths

- Efficiently automates document review & data analysis
- Improves accuracy of analyses
- Uncovers patterns that humans might overlook
- Reduces time & labour cost

### Weaknesses

- High implementation costs & investment in expertise
- Dependence on quality & completeness of input data
- May perpetuate bias or expose private training data
- Reticence of corporate leadership to implement

### Opportunities

- Expansion, handling more prospects simultaneously
- Free professionals for strategic analysis & advisory
- Multi-industry application
- Monitors real-time data for live & adaptive insights

### Threats

- Reliance on AI may introduce new cyber risks
  - Automation of routine tasks may displace jobs
  - Use of AI in decision-making raises ethical concerns
  - Dynamic regulatory landscape brings uncertainty
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## How Gen AI reduces time & cost associated with due diligence

Gen AI is highly effective at analysing legal documents & financial reports

- Optimal for virtual data rooms that contain complex data in multiple sources & formats
- Can automate contract reviews, support litigation & identify risks in real-time
- Able to translate documents, supporting international deal-making

THE  
SOLUTION



Accelerate deal  
timeline

- Efficiently find targets based on defined criteria
- Parse 000s of documents in compressed time
- UBS M&A Copilot analyses 300,000 companies in 30s<sup>[1]</sup>

Alleviate information  
overload

- Review contracts & reports to identify critical clauses
- Translate documents in international deals
- Anthropic's Claude scored +90% in 8 languages<sup>[2]</sup>

Deeply analyse financial  
statements

- Analyse & summarise each line item's impact
- Provide preliminary analyses for analyst to unpack
- BloombergGPT outperforms others on financial tasks<sup>[3]</sup>

Review performance,  
projections &  
assumptions

- Assess realism of assumptions, identify trends & concerns
- Consider management incentives for a deal
- Claude detects judges' reasoning with 90% accuracy<sup>[4]</sup>

Industry understanding  
& regulatory  
compliance

- Analyse live market structure, regulation, economics
- Assess competitors' & target's position, head/tailwinds
- Gen AI reduces market supervision review times by 90%<sup>[5]</sup>

Avoid unsuccessful  
acquisition

- Find inconsistencies or missing information in documents
- Support analyst to adjust valuation based on findings
- 70% increase in detecting code errors with Gen AI<sup>[6]</sup>

Competitive  
differentiation

- Accuracies & efficiencies support sustainable edge
- Outperform less experienced or less rigorous peers
- 85% of M&A users find Gen AI met/exceeds expectations<sup>[7]</sup>

ELEVATE DUE  
DILIGENCE

# APPLICATION IN M&A

## Top Priorities for Long Term Success within Corporate Legal Department

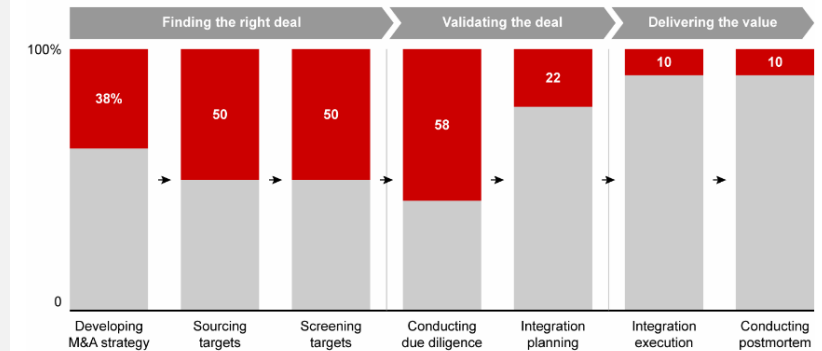


## Top priorities for legal teams using tech = Efficiency in key tasks & workflow

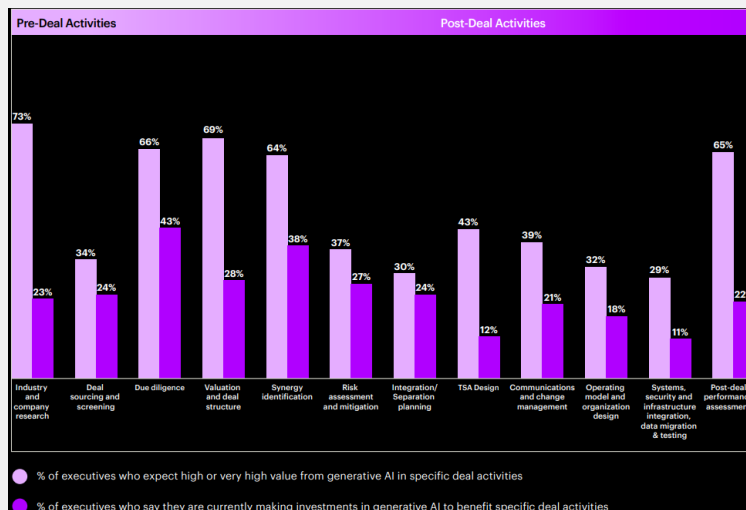
Of 300 M&A firms, 16% use Gen AI

- 80% expect to use within 3yrs
- Adopters – moderate firms (3-5 deals p/a)
- Main uses – sourcing, screening & due diligence
- Screen targets unidentifiable w/ traditional tools
- Reduce manual effort, reduce cost
- Accelerate timelines, improve focus

## Percentage of M&A practitioners using generative artificial intelligence at each step



Note: Includes current users (N=50)  
Source: Bain M&A Practitioners' 2024 Outlook Survey



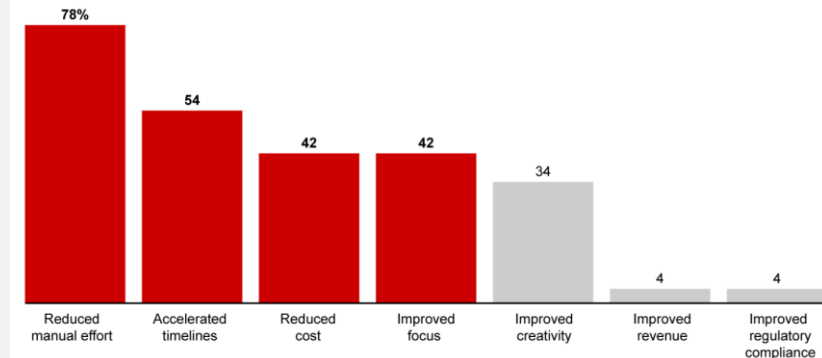
## Executives see Gen AI as main lever for reinvention

- 66% expect high value from Gen AI
- 43% are investing in Gen AI for due diligence

## Case study: [Robin AI](#) contract markups at PE firm

- Consistent 4-hour turnaround times
- Consistent results across firm's global hubs
- High quality, no edits from PE legal
- 21 mins saved per NDA, 126 NDAs across Q2
- 44.1hrs saved in 1 quarter

## Most compelling benefits of using generative artificial intelligence for the M&A process



# USER BASE

Expect significant growth as organisations seek competitive advantages

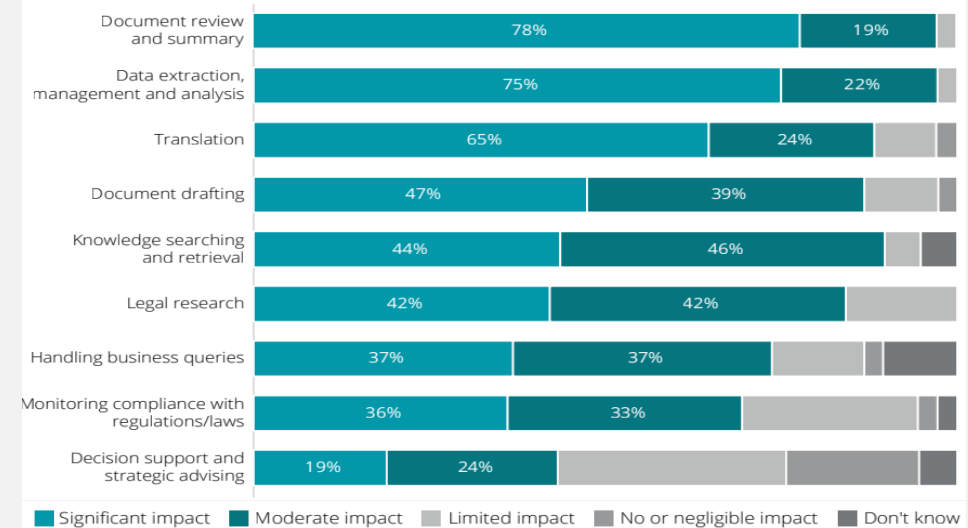
- 64% of 750 global C-suite M&A professionals expect Gen AI to revolutionise M&A deal processes
- 70% believe Gen AI will help them generate higher alpha in transactions
- Dealmakers must leverage external providers' experience & knowledge

## Case study: Gen AI due diligence vs. manual legal review

- 75% efficiency saving vs. manual review
- Language translation improved speed & quality of multi-language reviews
- Summarisation exceeds manual extraction for more succinct summaries
- Improved reviews of complex contracts involving mathematical formulae

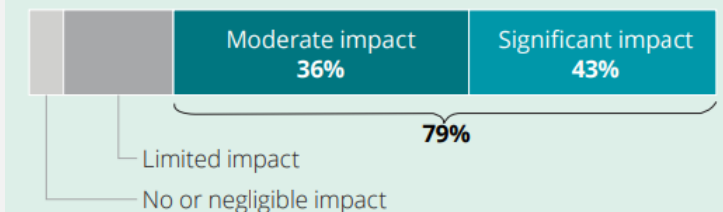


Figure 3: Impact of Generative AI on specific legal department tasks or activities



**79%** say that Generative AI will have **moderate to significant long-term impact on how legal work is performed**

What option best describes your legal department's perception of the long-term impact of Generative AI on the delivery of legal work?



# TOTAL ADDRESSABLE MARKET

## Global legal technology market

- Project 9.1% CAGR: \$31.59bn to \$63.59bn (2024-32)
- Driven by increasing adoption of AI for contract analysis, compliance checks & risk assessments

## Global financial due diligence market

- Project 7.4% CAGR: \$36.07bn to \$63.65bn (2023-31)
- Driven by rising demand for thorough financial assessment in private equity

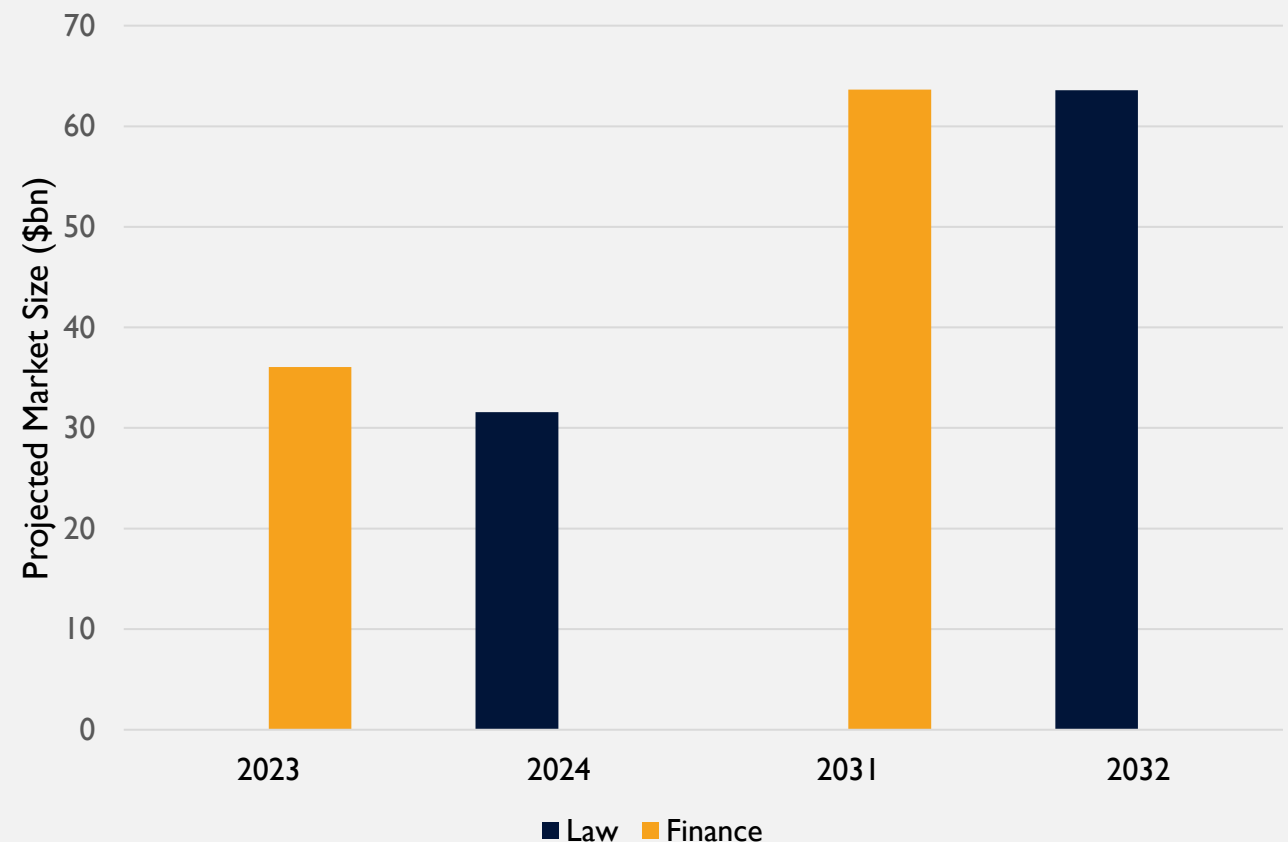
## Opportunity

Dealmakers are not well-aligned to value potential

- 57% selectively invest in Gen AI for M&A processes
- 8% are not investing at all
- Only 1/3 are investing heavily

Executives largest focus is on pre-deal elements

TAM for Legal & Financial Due Diligence Technology





# BARRIERS TO ENTRY



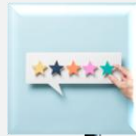
## Cost Constraints

- Costs ~\$200m to build a model from scratch
- Additional costs must be considered, e.g., labour, training, data management, process changes, data cleanup



## Access to Data

- Powerful models must be trained with quality data
- But AI could exhaust high-quality data available on the internet by 2026



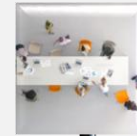
## Quality & Accuracy

- Models may inadvertently perpetuate biases in training data or apply weight to errors in training data
- Finding quality & consistent data is critical



## Security & Privacy

- Confidentiality & compliance w/ data privacy laws is critical
- But models risk exposing private training data
- Robust security measures are critical



## Lack of Expertise

- There are shortages of skilled AI professionals & limited in-house knowledge of AI abilities
- Organisations are resistant to change

Gen AI models face risks related to accuracy, bias & transparency. Regulatory changes create risks that may impact a product after it has gone live, particularly in sensitive industries like finance & law.

So, how do start-ups differentiate?

## Data Protection

- Data protection, encryption, anonymisation, safe handling
- Cybersecurity, multi-factor authentication, access controls
- Code security, protection through updates, secure VDRs

## Regulation & Compliance

- Adhere to jurisdictions & sector regulation
- Ethical AI demands bias prevention, transparency
- Intellectual Property rights, prevent infringement

## 5 Pillars of AI Architecture

- **Compute:** data-centres for training & inference
- **Data:** train, augment, prompt & tune models
- **Models:** perform inferences, train other models
- **Talent:** build models, develop pipelines, support ops
- **Governance:** strategic, economic & ethical decisions

## Risk Management

- Continuous monitoring and auditing
- Comprehensive risk assessment framework
- Liability mitigation policies if not addressed appropriately

## Best Practices

- Multidisciplinary expert team
- Phased implementation approach
- Rigorous third-party vendor management

# HOW TO STAND OUT

## Possible business models

### Offer AI-powered **due diligence as a service**

- Focus on automating routine tasks, data extraction & fraud detection

### Integrate **AI tools** into existing **Virtual Data Rooms**

- Instant data access & training on in-house documents

### Provide **tiered subscription models** for continuous access to AI tools

- Conduct ongoing monitoring & consider real-time macroeconomic factors

### Offer **strategic advisory** services

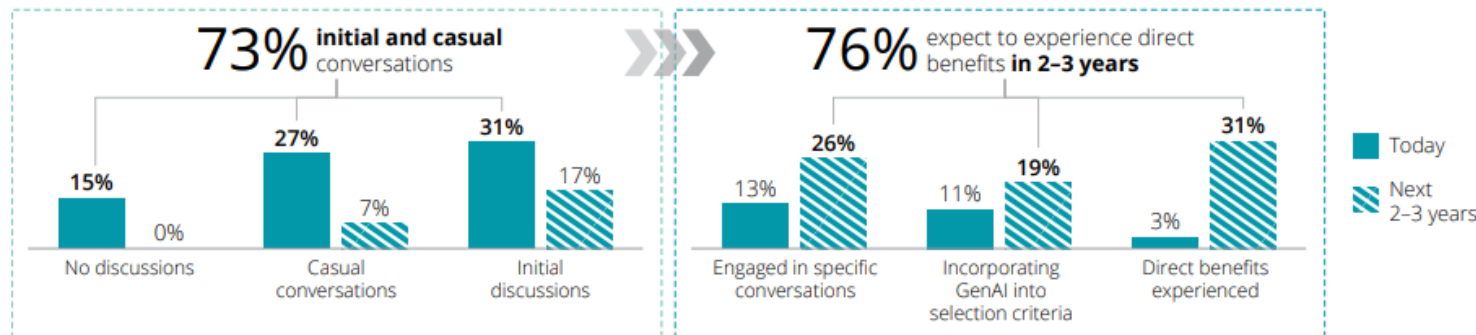
- Enhance value through detailed risk assessments

## Revenue streams

- Subscription fees for access to tools & platforms
- Paid consulting services
- Licensing technology to other firms or industries
- Monetise data analytics with detailed reports & insights as standalone products

# BUSINESS MODELS

### Engagement between legal dealmakers and external AI providers



POTENTIAL DEALS



# CATEGORY- DEFINING BUSINESSES

DFIN

drooms

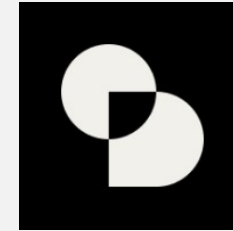
V7

Xceptor

SIGNALX

Robin AI

xapien<sup>AI</sup>



Sourcscrub

Acuration  
ACTUALIZE YOUR AMBITION

imprima

ZBrain.ai



Comparables.ai

dili

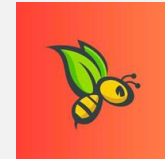
ferret

S&P Global  
Market Intelligence

eBREVIA  
intelligent contract analytics

DealAnalysis

Structize AI  
Automate any task with GenAI



transparently.AI

Kira

Diligent

Luminance



NM

AlphaSense

Wolters Kluwer

FACTSET

INTRA  
LINKS

THOMSON  
REUTERS

ANSARADA

PROVENIR

Juro

# OFFDEAL




## Background

## Why We Like Them

## Opportunity

Description	AI-native investment bank for buying & selling small businesses (ARR \$5-100M). Screens SMEs on precise acquisition criteria, matching buyers & businesses to reduce risk of deal failure.	Alignment to Thesis	Very strong alignment to thesis. Supports key criteria & cultural alignments. Also provides sellers opportunities to find offers that best suit them. Prime use of AI to reduce risk of deal collapse.	Latest Round	<b>\$4.74M Seed – May-24</b> Y Combinator, Rebel Fund, Centre Street Partners, Radical Ventures
Location	85 Broad Street New York, NY 10004 United States	Total Funding	OffDeal has raised a total \$4.8M over 2 funding rounds.		
Year Founded	2023	Traction	Focusing on 'search funds' as first customers – individuals who raise money from institutional investors to acquire small businesses. Operates 24/7, 2 million strategic buyers active on the platform	Investment View	<b>Monitor</b> Recent round, unlikely to raise for some time. Consider continued revenue growth and use of recent funding to expand company. Revisit at next funding round.
Team	3 employees • CEO Ori Eldarov 6yrs IB experience. First company. • CTO Alston Lin co-founded 2 companies, 10yrs software dev	Competitive Landscape	Finques – Singapore Done Deal – India GrowthPal – India OffDeal focuses on SME niche		

# STRUCTIZE AI

<div><div>Structize AI</div><div>Automate any task with GenAI</div></div>	Background	Why We Like Them		Opportunity	
Description	AI platform for legal and financial due diligence that can run in any data room.Support numerous files types to search unstructured data and distil essential information.	Alignment to Thesis	Very strong alignment to thesis. Focuses strictly on Gen AI solutions for legal and financial due diligence. Supports Virtual Data Rooms and gives analysts autonomy over the models they train.	Latest Round	N/A
Location	Antwerp, Belgium	Total Funding	Structize.ai are yet to raise.		
Year Founded	2021	Traction	Very young company – technology has taken time to develop. Little information on client base.	Investment View	Monitor/Enquire Structize.ai have yet to raise but have been operational for 3 years. Recommend reaching out to founders to understand funding plan/timeline. Consider participation in Seed when available,
Team	3 employees: <ul style="list-style-type: none"><li>CEO Rick van Esch, previously co-founded 1 company, 5yrs in AI</li><li>CTO Pieter Buteneers, previously co-founded 2 companies, 12yrs in ML</li></ul>	Competitive Landscape	Challenging landscape – up against more established providers and must win clients before clients begin to develop their own solutions e.g., UBS.		

# COMPARABLES.AI



Comparables.ai

## Background

## Why We Like Them

## Opportunity

<i>Description</i>	Platform for comparable analysis. Uses AI to compare public companies for insights and iteratively focus on those relevant to clients, enabling analysis of acquisition peer groups.	<i>Alignment to Thesis</i>	Strong alignment to thesis. Key strengths in M&A screening, market analysis and company valuation. Covers 360 million public and private companies globally.	<i>Latest Round</i>	<b>\$700K Pre-Seed – Jan-22</b>
<i>Location</i>	Lapinlahdenkatu 16 00180 Helsinki Finland	<i>Total Funding</i>	Comparables.ai has raised a total \$700K over 1 pre-seed funding round.		
<i>Year Founded</i>	2021	<i>Traction</i>	Winner of Nordic Fintech Awards 2023 8,000 client organisations, 30,000 users	<i>Investment View</i>	<b>Monitor/Enquire</b> Company has not raised for two years. Recommend reaching out to founders to understand funding plan/timeline. Consider participation in Seed when available.
<i>Team</i>	14 employees: • Co-founders Niko Nalli & Martin Kangsniemi have 3+yrs experience in Corp. Dev. It is their first company.	<i>Competitive Landscape</i>	Cover more companies than Factset and S&P Global. More limited in data points offered, but well-developed AI elements and more dynamic interface. Similar style company, <i>Unsupervised</i> , has raised \$54.5M		



# DILI



## Background

## Why We Like Them

## Opportunity

Description	AI platform to automate due diligence processes for deal across real estate, private equity and venture capital. Provides instant diligence reports and flags critical issues, enhancing accuracy and efficiency in decision-making.	Alignment to Thesis	Strong alignment to thesis. Automates complex document analysis and provides confidence scores, to enhance efficiency and accuracy in legal and financial analysis.	Latest Round	<b>\$3.6M Seed – Feb-24</b> Y Combinator, Gaingels, Decacorn Capital
Location	New York, NY 10011 United States	Total Funding	Dili has raised a total \$3.7M over 2 funding rounds, Pre-seed and Seed.		
Year Founded	2023	Traction	210% month-on-month revenue growth, having processed over 3,000 high-stakes deals. Backed by strong VCs, positioned well for expansion.	Investment View	<b>Monitor</b> Recent round, unlikely to raise for some time. Consider continued revenue growth and use of recent funding to expand company. Revisit at next funding round.
Team	9 employees	Competitive Landscape	Operates in the AI-driven due diligence space alongside other fintech and legal tech companies focusing on automation and data analytics.		

# CONCLUSION

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## Summary

Application of Gen AI in legal & financial due diligence capitalises on transformative technological shifts to unlock efficiencies and strategic insights.

## Advantages

- Automate complex analysis on broader datasets
- Enhance risk identification with real-time insights
- Reduces time & costs

## Key indicators

- 73% of legal professionals use AI for document review
- Projected 9-39% CAGR in legal & financial tech sectors
- Efficiency gains up to 75% on traditional methods

## Trajectory

Gen AI is a fundamental reimagining of due diligence. With increasing adoption and improved utility, applications using the technology are positioned to become indispensable for strategic decision-making in M&A.

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## Outlook: Highly Positive

Technological innovation, operational constraints in traditional M&A and market demand are converging. Gen AI will be a critical driver of competitive advantage for M&A professionals conducting legal and financial due diligence.

Several startups are operating in the space and look attractive for investors.

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